

4 Foreign Exchange Operations

4.1 Overview

The Foreign Exchange Operations Department (FEOD) continued to facilitate and serve its stakeholders in managing foreign exchange operations pertaining to remittances, exports and imports during the year. It remained actively engaged in routing commercial and private remittances, project payments, travel permits and permission of other releases on account of Government Budgetary allocations. The department also worked in close liaison with Foreign Exchange Adjudication Department (FEAD) for effective enforcement of Foreign Exchange Regulation Act (FERA) besides interacting with other counterparts including Exchange Policy Department (EPD), SME Finance Department (SMEFD) and General Counsel's Office of State Bank of Pakistan (SBP). Further, processing of payment claims against R&D support to industry and various other compensatory schemes announced by the Federal Government and SBP also remained amongst main activities undertaken by FEOD during FY09.

4.2 Implementation of R&D Support Schemes

4.2.1 R&D Support for Textile Exporters

The FY09 turned out to be quite a turbulent experience in R&D Support for textile and other sectors, mainly due to delay in release of budgetary allocation by the government. A series of meetings were held with Ministry of Finance to discuss and resolve the issues like validity of SROs, time bared cases and quantum of eligible cases etc. The issues finally got settled in February, 2009 and the Federal Cabinet approved release of Rs.4 billion for payment of R&D claims of exporters of specified commodities of textile sector. Since February to June 2009, about 42,642 cases were received from commercial banks, out of which 40,138 cases were found eligible for payments, against which Rs.2.3 billion was released through the banks of the textile exporters. This was however much lower than the 163,954 cases processed and Rs.20.486 billion paid last year. The substantial reduction in the number of cases processed during the year is partly attributed to delayed budgetary allocation by government and partly to the fact that during FY08, cases pertaining to previous years were also processed.

4.2.2 R&D Support for Motor Cycle Exporters

In March 2008, the Federal Government also allowed Motorcycle Industry to avail R&D Support in Pak Rupees equivalent to US\$ 50 against every completely build up unit of Motorcycle exported. Consequent upon the release of Rs. 25 million Budget in end May, 2009 by the Government, the FEOD disbursed Rs.24 million to the eligible exporters of Motorcycle industry against 43 out of 44 claims received under the scheme.

4.2.3 Database of R&D Schemes

During FY09, the department also started collecting live data from BSC field offices on daily basis through Globus system to maintain an updated position of disbursements under various support schemes of the Government for AGPR, Budgetary Wing of Finance Division and other relevant Government ministries.

4.3 Compensatory support to Pure Terephthalic Acid

The FEOD during the year also processed compensatory support claims of PTA users allowed by the Federal Government to facilitate PTA users (Polyester Products Manufacturers). Under the scheme the PTA users etc could claim reimbursement of 7.5 percent tax/import duty paid by them on local purchases/import of PTA, to lower their input cost and improve their competitiveness. An amount of about Rs.2 billion was disbursed to the PTA users through their Banks during the year for local purchase and import of PTA; the **Table 4.3** gives party wise detail of the amount disbursed during the year as compensatory support to PTA users.

Table 4.3 Compensatory support on Local Purchase & Import of PTA & Polyester Products (July 08 - June 09)		
Companies	Amount Paid against	
	Local Purchase	Import
Dewan Salman Fibre	77,982,581	3,518,324
Gatron Industries	210,950,269	-
Ibrahim Fibers	485,571,323	147,739,711
ICI Pakistan	423,431,054	-
Novatex	384,584,330	-
Pak Synthetic	57,548,622	-
Rupafil Ltd	96,809,120	14,031,335
Rupali Polyester	87,246,054	10,586,662
Total	1,824,123,353	175,876,032

4.4 Freight Subsidy on Import of Fertilizer

In order to lower the input costs of agriculture sector, the Federal Government announced freight subsidy on import of fertilizer during the year, which was also disbursed by FEOD. The subsidy payments were made to the fertilizer importers through their Banks as per allocation approved by the Finance Division, Government of Pakistan. A total amount of Rs. 7.622 billion was disbursed to the fertilizer importers during the year as freight subsidy on import of fertilizer; BSC office-wise breakup of the payments made is given in **Table 4.4**.

Table 4.4 Freight Subsidy on import of fertilizer		
Office	Weight (Kg)	Amount
Karachi	293,272,000	6,482,470,703
Lahore	25,913,930	1,140,213,140
Total	319,185,930	7,622,683,843

4.5 Expediting and Strengthening Enforcement Framework

During FY09, the field offices accelerated tracing out the exporters for repatriation of export proceeds by holding regular meetings with commercial banks and exporters' associations etc. The Presidents of Banks/Authorized Dealers were also stressed to either pursue the delinquent exporters for immediate repatriation of export proceeds or surrender shipping documents to BSC Offices in the export overdue cases along-with scrutiny sheets to initiate legal action against the delinquent exporters under FERA of 1947. Accordingly 4,000 shipping documents in cases of delinquent exporters as reported by banks were obtained from banks during the year. The offices also expedited the completion of the pre-adjudication formalities for lodging complaints against the exporters where export bills stood unrealized, as also against the Authorized Dealers who failed to submit the information/ documents pertaining to stuck up export bills with Foreign Exchange Adjudication Courts under the rules.

4.6 Verification of Exporters' Performance through EE/ EF Statements

Exporters availing SBP EFS are required to get their Export Finance (EF) and Export Earnings (EE) realized during the respective financial year verified from FEOD Units in BSC at HOK and field offices. Considering the significance of the area and work load, special teams are constituted to ensure timely completion of the verification exercise. During the year 544,174 EE & EF

Table 4.6 Output Profile of Verification of EE/ EF Statements			
S #	Name of the Field Office	Entries for the Monitoring year	
		2006-07	2007-08
1.	FEOD HOK	170,187	176,887
2.	Faisalabad	110,503	129,870
3.	Lahore	84,823	77,466
4.	Multan	2,696	2,985
5.	Sialkot	117,000	145,000
6.	Muzaffarabad	2	-
7.	Peshawar	4,012	11,966
Total		489,223	544,174

entries for the export finance taken and export earning realized during FY08 were verified from their respective schedules by the FEOD, HOK and 6 field offices of BSC located at Faisalabad, Lahore, Multan, Sialkot, Muzaffarabad and Peshawar as against 489,223 entries for FY07 verified during the preceding year (Table 4.6).

4.7 Capacity Building of Internal & External Stake Holders

Besides capacity building initiatives for its own staff, the FEOD during the year also arranged various training programs for commercial banks in different cities across the country with the support of Training and Development Department. The initiative was aimed at a) improving bank officials' understanding of EE/EF statements, export overdue cases and foreign exchange operations, b) minimizing irregularities in export related cases being processed by them and c) dissemination of SBP/BSC policies and initiatives for simplifying the foreign exchange operations. A total of 559 officers from twenty eight commercial banks participated in the said training programs arranged by the FEOD in different parts of the country during the year. See detail in Table 4.7.

S #	Name of Banks	Training Module	Date of Training	Participants	Venue of Training
1	MCB Bank Limited	EE/ EF Statements	06-04-2009	21	Karachi
		Export Overdue	07-04-2009	20	
2	Habib Metropolitan Bank Limited	Export Overdue	10-04-2009	30	Karachi
3	Royal Bank of Scotland	EE/ EF Statements	13-04-2009	08	Karachi
		Export Overdue	14-04-2009	08	
4	Habib Bank Limited	EE/ EF Statements	15-04-2009	43	Karachi
			20-05-2009	35	Lahore
		Export Overdue	16-04-2009	43	Karachi
			21-05-2009	35	Lahore
5	Bank Al Habib Limited	EE/ EF Statements	21-04-2009	25	Karachi
		Export Overdue	22-04-2009	25	
6	Allied Bank Limited	EE/ EF Statements	27-04-2009	28	Karachi
		Export Overdue	28-04-2009	28	
7	Mybank Limited	EE/ EF Statements	27-04-2009	22	Karachi
			15-06-2009	13	Lahore
		Export Overdue	28-04-2009	22	Karachi
			16-06-2009	13	Lahore
8	National Bank of Pakistan	EE/ EF Statements	17-06-2009	18	Lahore
			19-06-2009	31	Islamabad
		Export Overdue	18-06-2009	18	Lahore
			20-06-2009	31	Islamabad
9	Other Banks ¹	EE/ EF Statements	25-06-2009	21	Karachi
		Export Overdue	26-06-2009	21	
Total				559	

¹ Askari Commercial Bank, Arif Habib Bank Limited, Al-Baraka Islamic Bank, Atlas Bank Limited, Barclays Bank, Bank Alfalah Limited, Bank Islami, Deutsche Bank, Faysal Bank Limited, First Women Bank Limited, KASB Bank Limited, NIB Bank Limited, Silk Bank Limited, Standard Chartered Bank, Samba Bank Limited, Soneri Bank Limited, The Bank of Punjab, United Bank Limited, National Bank of Pakistan, Hong Kong & Shanghai Banking Corporation.